Mr. Geoffrey P. Hunt
Senior Vice President Communications and Human Resources
OSRAM SYLVANIA

Testimony
Before the Subcommittee on Energy and Minerals/Committee on Resources

Hearing on the Outer Continental Shelf Natural Gas Relief Act

November 17, 2005

Geoffrey P. Hunt
Senior Vice President

Communications and Human Resources

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STATEMENT OF GEOFFREY P. HUNT

To: U. S. House of Representatives
Resources Subcommittee on Energy and Minerals

Re: Testimony in support of Rep. John E. Peterson proposal to immediately open the vast majority of the Outer Continental Shelf to natural gas exploration and production

OSRAM SYLVANIA is the North America business affiliate of OSRAM GmbH, part of Siemens, the leading worldwide manufacturer and distributor of lighting products for general consumers, industrial and commercial users and automotive OEMs and consumers. In the United States, under the SYLVANIA brand, which has been an American icon for over 75 years, we employ over 9,000 employees, including 6,500 hourly factory workers and have annual sales of approximately $2 billion. We manufacture light bulbs, lamp components and process strategic raw materials in five states – Pennsylvania, Kentucky, New Hampshire, Indiana and Rhode Island.

Reliable and affordable supplies of natural gas are vital to our business. Natural gas is our exclusive clean energy source to melt and form glass bulbs and tubing, process raw materials such as tungsten and rare earth phosphors as well as the forming and molding of glass and metal components in assembling finished lamps, incandescent, tungsten halogen, fluorescent, and high intensity discharge. We also use a variety of plastic parts requiring high density polyethylene resins which rely on natural gas for both raw material and processing energy. In 2004 we consumed approximately 3.3 million MCF of natural gas throughout our U.S. operations. In the past five years we have seen natural gas prices escalate from $3 per MCF to well over $10 on the spot market. As compared to natural gas costs in 2000, our bills in 2005 will be $24 million higher. In fact, for 2004 to 2005 alone, gas costs for us have escalated by $7 million. This is the single largest rate of increase in any of our costs of production. At current supply levels, we expect to see gas prices exceed $12 per MCF in 2006/2007 which will add another $7 million to our energy bills. Accordingly, since 2000, the rate of annual increase will exceed 25%.

Furthermore, while the vast majority of our production is based in the U.S., nearly 60% of our competitors' products are manufactured outside of the United States – some in Europe where natural gas costs are less than $5 per MCF and Asia, particularly China, where gas is less than $4 per MCF. By 2007, the competitive disadvantage will be over $20 million on top of the wage gap vs. China which is already overwhelming.

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SYLVANIA has attempted to offset the cost of natural gas through natural gas consumption productivity and efficiency projects. 5% of all capital spending annually has been devoted to natural gas efficiency. Key projects have included improved burner controls, improved insulation and combustion air, and thermal measuring devices – pyrometers and infrared optical process controls. We also have projects to reduce leakage, eliminate wasted BTUs and achieve shorter working times where heat applications are used for glass melting and forming. Occasionally we have considered propane as an alternate fuel, but only as a partial back-up source because propane is more expensive per BTU than gas and poses hazardous storage and security risks.

We rebuild glass melting furnaces every 5 to 7 years requiring investments of $3 to $6 million each time. Achieving higher gas efficiency is a major component of new furnace design.

All of the efforts to use gas more productively have resulted in 5 to 8% of gas use reduction each year. This amounts to productivity savings of $1.5 to $2.0 million each year. But with the natural gas costs going up $6, 7, 8 million per year – far exceeding efficiency savings-- it's a losing battle.

Over ten years ago at our Rhode Island glass factory, we switched from oil to gas/oxygen to improve glass melting quality and reduce sulphur and NOx emissions. With the rising cost of natural gas, two years ago we consolidated glass melting capacity at Wellsboro, PA and Versailles, KY for improved economies of scale. As a result, several hundred manufacturing jobs in Rhode Island were eliminated and not replaced in either Pennsylvania or Kentucky. I cannot say conclusively or exclusively that if gas were at $3.00 per MCF, those Rhode Island jobs would be saved. But I can say, gas at $7, 8, 9, 10 per MCF didn't help keep those jobs in Rhode Island.

We are deeply concerned that if natural gas prices continue to escalate - this week now at $11 per MCF - our competitiveness will erode having unhappy consequences for our U.S. based manufacturing strategy. While some people may argue that passing the costs onto consumers is a remedy, price increases in the lamp market with so many global competitors is an impossibility. Moreover, price increases to consumers to cover natural gas cost increases should be unnecessary as long as a timely, viable natural gas strategy is implemented. Globally competitive energy costs – especially natural gas – are a necessity to maintain our financial vitality and keep good paying, suitable jobs in the United States.

We agree with Representative Peterson that coastal offshore drilling for new natural gas supplies carried out in a responsible and expeditious manner is the most important priority in new energy legislation that should be taken up and enacted by Congress before the end of 2005.

For OSRAM SYLVANIA

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